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REPORT OF THE SEMINAR ON CO-OPERATION BETWEEN
INDUSTRIAL FREE ZONES IN THE ARAB REGION,

Alexandria, 21 February - 1 March 1977.

18.77-1711

Explanatory notes

The following abbreviations have been used in this document:

ACM	Arab Common Market
GSP	generalized system of preferences
IFZ	industrial free zone
WIFZA	World Industrial Free Zone Association

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INTRODUCTION

Industrial free zones (IFZ) of different types have been created by many developing countries as a means of transferring industrial technology from the developed to the developing economies, thereby generating new employment in manufacturing and acting as a spearhead for increasing industrial exports.

In supporting such projects UNIDO is carrying out its mandate as set forth in the Lima Declaration and Plan of Action on Industrial Development and Co-operation, adopted in 1975, especially as regards economic co-operation at the regional, interregional and international levels. Through well-planned industrial free zones, export industries are redeployed to provide access to existing international markets, to foster employment and productivity and to accelerate industrial development.

Several industrial free zones already exist and others are planned. In 1976 UNIDO was requested to organize in Egypt, together with the General Authority for Investments and the Free Zones, a Seminar on Co-operation between Industrial Free Zones in the Arab Region. The Seminar was financed by the voluntary contribution of Egypt to the UNIDO General Trust Fund (project No. VC/INT/76/018).

The Seminar was held at Alexandria, Egypt, from 21 February to 1 March 1977.

Its objectives were:

- (a) To link the concept of IFZ with broader aspects of industrial development, especially in the Arab region;
- (b) To harmonize free zone investment incentives in the region;
- (c) To provide a forum for examining free zone problems in the region, especially the problem of adopting a common policy towards intraregional free zone exports;
- (d) To review the effect of free zones on export promotion in the region.

The status of exports from free zones in the region was thus reviewed. It was noted that the greater part of exports from existing IFZ were exported outside the host country's region.

The Seminar was attended by 10 participants from Arab countries, 1 participant from the region, 5 international consultants, 16 observers from developing countries, 6 observers from developed countries, 1 observer from the Economic Commission for Western Asia (ECWA), 1 observer from the United Nations

Conference on Trade and Development (UNCTAD), 1 observer from the Arab Council for Economic Union, 1 observer from the Arab Development Institute and 3 representatives of UNIDO.

The countries sending participants were Algeria, Bahrain, Cyprus, Egypt, the Libyan Arab Republic, Oman, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and the Yemen Arab Republic.

Members of the staff of the General Authority for Investments and the Free Zones, of the Industrial Development Centre for Arab States (IDCAS) and of other agencies in Egypt also assisted in organizing the Seminar.

The Seminar was opened by His Excellency the Governor of Alexandria Abdel Ahmed Hodeib, in the presence of Dr. Abdel Razzak Abdel Meguid, Vice-Chairman of the General Authority for Investments and the Free Zones; Ambassador Mahmoud Kassem, Head of the Department for International Co-operation, Ministry of Foreign Affairs; Gamal El Sahrawi, Under Secretary of State for Free Zones, Investment and Free Zone Authority; Hanafi Shaaban, Director General of the Alexandria Free Zone; and S. Linner, Resident Representative of the United Nations Development Programme (UNDP).

The five international consultants were drawn from successfully operating free zones, from private business (major investors) and from overseas investment promotion offices. Their papers are listed in annex II.

The Seminar was given considerable assistance by the Senior Industrial Development Field Advisers from the region, A. Abdelwahab, S. Salem and S. Szivos.

I. SUMMARY OF RECOMMENDATIONS

1. The encouragement of IFZ projects within national programmes for economic and social development should be given high priority in the Arab region and internationally.
2. As investment promotion is a highly competitive international business, Arab countries could best co-ordinate their attempts to attract new investment through an Association of Free Zone Authorities. Such an Association should not delay the formation of a World Industrial Free Zone Association (WIFZA).
3. UNIDO should organize an inaugural meeting of WIFZA as soon as possible.
4. UNDP, UNIDO and UNCTAD should carry out the appropriate studies together with Arab organizations to achieve common policies regarding intraregional exports, to plan the optimum number and location of free zones in the region and to maximize the benefits of the generalized system of preferences (GSP).
5. Maximum use should be made of the UNIDO programme for promoting co-operation between developing countries to arrange for training visits of officials from the Arab region to operating IFZ.
6. High priority should be given by Governments of interested Arab countries to free zone projects when planning their technical assistance programmes with UNDP/UNIDO.

II. REPORT OF THE SEMINAR

Value of industrial free zones

The Seminar was satisfied that within the industrial development policies of the Arab countries industrial free zones have demonstrated that they can attract investment and industrial technology to these countries, provide valuable employment and increase exports and international trade.^{1/} They should be viewed as a most useful part of national programmes for economic and social development. Their encouragement should be given high priority at the national, Arab regional and international level.

The Seminar noted that the attraction of investment is now a highly competitive international business. Industrial free zones, States and municipalities throughout the world offer a wide variety of opportunities to investors. While some needs are clear, such as that for straightforward and unambiguous incentives and other legislation, other aspects deserve further examination. The additional study which is desirable can be assisted by co-operative action through an Association of Free Zone Authorities.

Harmonization and co-ordination of incentives

The Seminar recognized that because of the essentially competitive nature of investment promotion the full harmonization of incentives would be difficult to achieve. Competition between countries in the same region could lead to excessively high bids by them for investment. Such competition exists not only between countries, but also between Arab countries as a group and the rest of the world. The ability of Arab countries to compete successfully would be strengthened by their co-operation as a group.

Co-operation and co-ordination would offer several benefits. They would facilitate the exchange of experts and the operation of programmes of training, particularly within the Arab region but also involving specially qualified outsiders. They would provide a central source of information and research for carrying out needed studies and ensuring against the costly repetition by individual countries of studies already available. They would also present possibilities for joint promotion. In this regard the Seminar noted the valuable idea that incentives, prior to their finalization, could be discussed in principle with potential investors. Through co-operative efforts completely new

^{1/} Joint Symposium on Long-Range Planning and Regional Integration with Special Reference to the Arab Region, Cairo, January 1976; Symposium on Arab Industrial Co-ordination, Alexandria, June 1976; and Fourth Conference on Industrial Development for Arab States, Baghdad, December 1976.

applications of the free zone concept could also be explored, for example, its possible use in attracting investment and technology to agriculture in the development of reclaimed lands.

Means of co-operation

The Seminar, therefore, recognized the need for some medium of co-operation between Arab countries which have established, or intend to establish, free zones. It recommends that this should take the form of a permanent committee representing these countries. It should have a permanent secretariat, which might consist initially of one individual appointed by the countries concerned; alternatively, the secretariat could be provided by an existing Arab specialized agency such as IDCAS, or by the Arab Council for Economic Unity or the Arab Organization of Administrative Sciences. However served, the committee should work towards an Arab Association of Free Zones, and its secretariat, in the interim, could pursue areas of co-operation.

The Seminar noted the ongoing work of UNIDO relating to the proposed formation of a World Industrial Free Zone Association (WIFZA). The action proposed above, as it is specifically designed to serve the common and special interests of Arab countries, should in no way interfere with plans for a world association. Individual Arab countries could still participate in a world association. Their membership in WIFZA would strengthen the bargaining position of IFZ.

Progress of the free zones of individual countries should not be delayed by efforts to achieve full regional co-operation and harmonization. Some countries, like the Syrian Arab Republic, already have well-established free zones which should be further developed as part of national programmes of industrialization. Others, like Sudan, while they have successful experience in duty free shops, are in the preliminary stage of planning free zones. The need for early and continuing action at the national level should not await regional action.

Common policies regarding intraregional exports

The Seminar reviewed questions related to the establishment of a common policy regarding exports from IFZ engaging in intraregional trade. It was agreed that, unlike the patterns of intraregional trade in other regional groupings containing IFZ, there was a likelihood that some Arab IFZ exports could be directed to intraregional markets. Accordingly, the Seminar discussed and made recommendations on two main issues:

- (a) The customs implications for IFZ activity in intraregional trade;
- (b) The importance of maximizing the benefits of GSP on Arab IFZ exports to markets of developed countries.

It was agreed that a common policy for the treatment of intraregional exports from IFZ is indispensable to maintain the benefits provided to the IFZ exporters interested in exporting to regional as well as to global markets. After discussing a broad range of customs policy alternatives both within and outside the context of the Arab Common Market (ACM), the Seminar acknowledged that a series of in-depth studies should be undertaken to examine these issues, which include the following:

- (a) The correct and equitable domestic value-added criteria to be applied to qualify exports from IFZ for preferential treatment within the ACM;
- (b) A country-by-country examination of the tariff structure facing actual and probable exports from IFZ in the Arab region;
- (c) A study based on economic criteria which would evaluate the best probable economic distribution of IFZ, site selection and general export activities within the region;
- (d) Other studies as deemed appropriate to intraregional trade, including a re-examination of the relevant ACM rules.

It was felt that these studies should be carried out as soon as possible and should take full advantage of the expertise and technical assistance programmes of UNDP, UNIDO and UNCTAD and of bilateral assistance and assistance from Arab organizations.

Generalized system of preferences

Since a significant portion of exports from the Arab IFZ will be directed towards markets and developed countries outside the region, the Seminar felt it important to fully maximize the benefits which can be derived from GSP. It recommends that a series of seminars be established which will utilize the training and advisory services of the joint UNCTAD/UNDP GSP project, of UNIDO and of other United Nations bodies. It was felt that these seminars would be useful, not only to officers of IFZ, but also to officials from governmental bodies interested in trade, including the customs administration, and to exporters in general.

Integration of IFZ with other Arab industries

Potential investors should be supplied with as much information as possible on the possibilities for purchase and production of Arab components and of

semi-products that could be applied in the production of different products. This would be especially important where there are unused industrial capacities.

Sources of technical assistance

The Seminar urged the Governments of interested Arab countries to attach high priority to requesting the required technical assistance from UNDP/UNIDO while formulating their country programmes in the framework of the Indicative Planning Figures.

The Seminar felt that maximum use should be made of the UNDP/UNIDO scheme for co-operation between developing countries, both in the field of training and in the field of exchange of expertise. Maximum use should also be made of any bilateral assistance that may be offered by developed countries which already have IFZ, or by any other donor countries. Assistance may also be obtainable from various Arab funds, or through other Arab organizations or associations.

The Seminar commended to all such sources the value of IFZ and recommended that priority be given their support and development.

Such assistance should be made available for co-operative and individual national action. In the latter case, support should be given according to the needs of the individual countries.

Annex I

WORK PROGRAMME

<u>Date and time</u>	<u>Event</u>	<u>Speaker</u>
Sunday 20 February	Assembly and registration Arrival of all participants and lecturers at Cairo Airport; transfer to Alexandria	
	<u>Session</u>	
Monday 21 February	09.30 - Opening ceremony 10.30 - Adoption of programme of work 12.30 - Introduction by UNIDO 13.00 - Substantive session I 14.30 - Investment promotion	A. Abdel Meguid, UNIDO, New York Liaison Office
Tuesday 22 February	09.00 - Discussion on first paper 11.00 - Substantive session II 11.30 - Industrial free zones 13.00 - Discussion on second paper 13.30 - 14.30 -	Group discussion with question-and- answer session Paul Quigley, General Manager, Shannon Free Zone Development Company, Ireland
Wednesday 23 February	09.00 - Substantive session III 10.30 - Paper on investment incentive evaluation 11.00 - Discussion on paper III 14.00 -	Teodoro Pena, Chairman, Bataan Export Processing Zone, Philippines
Thursday 24 February	Excursion	
Friday 25 February	Free	
Saturday 26 February	09.00 - Substantive session IV 10.30 - Comparative advantages of investment in free zones 11.00 - Discussion on paper IV 14.00 -	Y. Konishi, General Manager, Corporate Planning Department Torey Industries Inc. Tokyo, Japan

<u>Date and time</u>	<u>Session</u>	<u>Speaker</u>
Sunday 27 February	09.00 - Substantive session V 10.30 Paper on investors' attitudes to free zones	Grant A. Dove, Group Vice President Texas Instruments Inc. Dallas, Texas, USA
	11.00 - Group discussion 14.00	
Monday 28 February	09.00 - Round table discussion on 10.30 harmonization of incentives for investment in the Arab countries	
	11.00 - Round table discussion on establish- 12.30 ing a common policy towards goods from the zones sold within the region	
	13.00 - Formulation of conclusions for the 14.30 report and plan of future action	
Tuesday 1 March	09.00 - Discussion of draft report 11.00	
	11.30 - Adoption of conclusions and report 14.00	
	18.00 - Closing session 19.00	

Annex II

LIST OF DOCUMENTS DISTRIBUTED TO THE SEMINAR

- ID/169 Establishment of an association of industrial free zones
- UNIDO/IOD.31 Handbook on export free zones
 by T. Kelleher
- ID/WG.235/12 Technical assistance in pre-investment studies
- ID/WG.244/1 Reasons for success of the Mexican border industrial free zones
 by R. L. Bolin
- ID/WG.244/2 Manufacture for export in free zones in Mexico
 by R. L. Bolin
- ID/WG.244/3 Organization and financing of investment promotion incentives
 by P. Quigley
- ID/WG.244/4 Overseas investment by Japanese textile corporations
 by Y. Konishi
- ID/WG.244/5 How to organize an industrial free zone
 by T. Q. Pena
- ID/WG.244/6 Report of the Seminar on Co-operation between Industrial Free
 Zones in the Arab Region
- ID/WG.244/7 Free zones in the Syrian Arab Republic in the light of co-operation
 and co-ordination between free zones in Arab countries
 by T. Bali
- ID/WG.244/8 Investors attitudes to industrial free zones
 by G.A. Dove
- ID/WG.244/9 Investment promotion and the role of free zones in the Arab
 states
 by A. Meguid

Annex III

LIST OF PARTICIPANTS AND OBSERVERS

OFFICIALS OF THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT

H.E. Abdel Tawab Ahmed HODEIB, Governor of Alexandria
Ambassador Mahmoud KASSEM, Head of Department for International
Co-operation, Ministry of Foreign Affairs, Cairo
Dr. Abd el Razek Abdul MEGUID, Vice Chairman, General Authority for
Investments and the Free Zones

CO-ORGANIZER

Mr. Gamal EL SAHRAWI, Under Secretary of State for Free Zones, Investment
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Mr. M.A. MANNAN, General Manager, Duty Free Shops Corporation, Khartoum,
Sudan
Mr. M.A. RAHMAN, Director, Ministry of Commerce & Industry, Muscat, Oman
Mr. M. RIAHI, Chief of Marketing Studies Division, National Centre of
Industries Studies, Tunisia

Mr. Hanafi SHAABAN, Director General, Alexandria Free Zone, Arab Republic of Egypt

Mr. Amar ZOUAOUT, I.N.P.E.D., Algeria

OBSERVERS

Mr. R.M. BAYOUMI, First Secretary, General Department of Trade, Council of Arab Economic Unity (CAEU), Cairo, Arab Republic of Egypt

Mr. M. BERBECHÉ, Administrative Officer, Centre of Export Promotion, Tunisia

Mr. Abbas EL HUSSEINY, Under Secretary, General Organization for Industrialization, Cairo, Arab Republic of Egypt

Mr. Abdel Daem EL SAWY, Chairman, Technical Administration, General Organization for Industrialization, Cairo, Arab Republic of Egypt

Mr. A.M. EL TAHIR, Director, Industrial Concession Department, Ministry of Industry, Khartoum, Sudan

Mr. Farouk A. FATTAH, Director General, Port Said Free Zone, Port Said

Mr. E.J. FROST, Special Director, Westland Helicopters, Somerset, UK

Mr. P.J. GINMAN, Economic Affairs Officer, Manufactures Division, UNCTAD, Geneva, Switzerland

Mr. Ziad KASSEM, Economic Commission for Western Asia (ECWA), Amman, Jordan

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Mr. John McCORMACK, Texas Instruments Inc., Texas, USA

Mr. Niall A. O'BRIEN, Deputy Director, Irish Free Zone Consultancy Team. Shannon Free Airport Co. Ltd, Co. Clare, Ireland

Mr. A. H. SHAMSELDIN, Economic Researcher, United Arab Emirates

Mr. F. ULLMAN, Société General pour l'industrie, Geneva, Switzerland

UNITED NATIONS DEVELOPMENT PROGRAMME

Mr. S. LINNER, Resident Representative of the United Nations Development Programme, Cairo, Arab Republic of Egypt

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION, VIENNA

Mr. W. OETTINGER, Principal Industrial Engineer, IBRD/UNIDO Cooperative Programme

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Mrs. J. SCHOENFELD, Administrative Officer

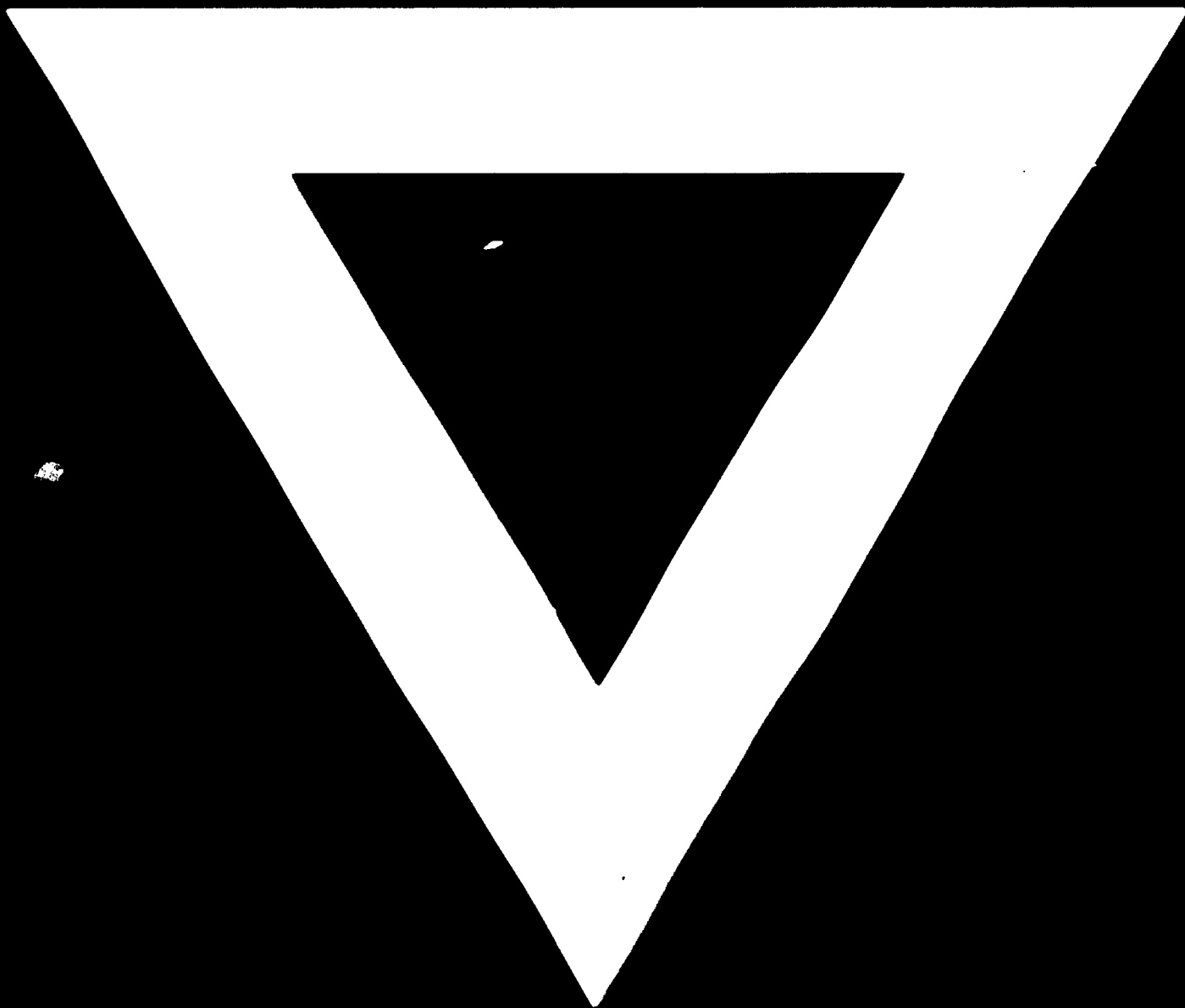
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